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RESPECTING SALES TAX

to

THE ONTARIO COMMITTEE ON TAXATION

L. J. SMITH, CHAIRMAN

88 UNIVERSITY AVENUE

TORONTO, 1, ONTARIO.

by

ONTARIO CARBONATED BEVERAGE ASSOCIATION

ONTARIO CARBONATED BEVERAGE INDUSTRY

159 Bay Street,
Toronto 1, Ontario.

February 12, 1964.

The Ontario Committee on Taxation,
L. J. Smith, Chairman,
88 University Avenue,
Toronto 1, Ontario.

Gentlemen:

The Ontario Carbonated Beverage Association welcomes the opportunity to appear before this Committee and to present this brief.

THE INDUSTRY IN ONTARIO

The Ontario Carbonated Beverage Association is a federated member of the Canadian Bottlers of Carbonated Beverages and represents the whole Industry throughout Ontario, comprising 161 Soft Drink bottling establishments. These establishments are, with very few exceptions, owned and operated by local businessmen. As indicated in the attached brief presented to The Honourable James N. Allan, Treasurer of Ontario, on January 31st last, (Exhibit A) bottlers in Ontario produce 33.3% of all the Soft Drinks manufactured in Canada, employ a considerable number of workers and contribute greatly to the local economy through the purchase of materials, machinery, sugar, bottles, crowns, cases, cartons, trucks and vehicles, etc.

A LOCAL INDUSTRY

Perhaps no other Industry in Canada or in Ontario is as local by nature as is the Soft Drink Industry. The great majority of bottling establishments are owned and operated by local businessmen, who must provide and maintain their own plants including expensive machinery and equipment. Each Bottler has a very substantial investment in his local community. In many cases he ranks among the major employers in his town and often is one of the few who are able to provide steady work throughout the year.

In our view ours is the kind of locally owned Industry that should be encouraged, rather than discouraged by the imposition of the 3% sales tax on Carbonated Beverages.

A SUBSTANTIAL INDUSTRY

As well as being local in character, ours is a substantial Industry. The latest figures contained in the most recent Canada Year Book place the Carbonated Beverage Industry twelfth in volume of sales among all Canadian manufacturers of food and beverages. It is therefore obvious that the impact of this Industry upon the Provincial economy is great and particularly so at the local level.

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INDUSTRY PURCHASES

The Carbonated Beverage Industry is the largest commercial consumer of sugar in Canada and consequently in Ontario and as a result this has a marked and beneficial effect upon the beet sugar growers of this province. It is one of the largest purchasers of glass bottles. In addition, the Industry buys large quantities of paper products; it is the largest customer of the few remaining manufacturers of wooden cases and buys a great number of commercial vehicles annually. The benefit to Ontario industries generally which these expenditures produce is very substantial.

TAXES SHOULD NOT DISCRIMINATE

We are, in this short presentation, confining ourselves to the particular discriminatory aspect of the Provincial Sales Tax as it affects our business. We believe it to be a most important principle that taxing statutes should not discriminate. In our view it is quite wrong to place one Industry at a tax disadvantage as compared with the manufacturers of other competitive products. We strongly urge that one industry standing in competition with another should bear exactly the same burden of tax.

It is a direct violation of this principle in the imposition of the Ontario Sales Tax that places an unfair and unreasonable burden upon the members of the Ontario Carbonated Beverage Industry as compared with its competitors.

ONTARIO PROVINCIAL RETAIL SALES TAX

Carbonated beverages are subject to the three (3%) per cent Ontario Sales Tax. Other food and food products in general are not subject to such tax. Carbonated beverages compete directly with a substantial number of products which are not subject to this tax. The following list is merely an illustration of such products.

1. Tea

   (a) bulk tea - tea bags
   (b) instant tea
   (c) iced tea mixes.

2. Coffee

   (a) ground coffee
   (b) instant coffee
   (c) iced coffee
   (d) coffee substitutes.

3. Cocoa, hot chocolate and chocolate flavoured drinks.

4. Ice cream

5. Sherbets.

6. Popsicles, fudgicles and similar products.

7. Fruit juices containing 25% or more by volume of natural fruit juices.

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Certain competitive products attract a substantially reduced tax because of the form in which they are sold. In this category are the many powders and tablets to be used for homemade soft drinks. Most of these have to be taken home and other non-taxed ingredients, particularly sugar, are added to produce the final beverage. As a result the tax only applies on a very small portion of the whole product. With respect to carbonated beverages, the tax applies in respect of the selling price of the whole product and the tax is many times greater.

HOME CONSUMPTION - ON THE SPOT CONSUMPTION

In making comparisons with these various products, it should be noted that most sales of carbonated beverages are now made for home consumption where the competition from other food products is very keen. Whereas some 20 to 25 years ago only 15% of Soft Drinks were consumed in the home we estimate that at the present time more than 70% of all sales are for home consumption where they compete directly with other non-taxable foods. This increase in home consumption of soft drinks is in the main the result of changing consumer habits, buying habits, personal preferences, population make-up and groupings, etc. Such change, however, has made more pronounced the competitive disadvantage which carbonated beverages suffer by comparison with other non-taxable foods and beverages.

In addition, a substantial portion of carbonated beverage sales is made to restaurants and other eating establishments. Here again carbonated beverages are forced to compete directly with tea, coffee and a whole series of other beverages which are not taxed.

Another area in which sales of carbonated beverages are brought into sharp competition with non-taxable products is in the course of industrial refreshment breaks. In these circumstances the main products consumed are tea, coffee, hot chocolate and Soft Drinks. It is obvious that only Soft Drinks bear the burden of the Provincial Sales Tax - the other products are free of such tax.

CONCLUSION

We feel that it is abundantly clear from these illustrations that the 3% Provincial Sales Tax on Carbonated Beverages is a tax which offends most bluntly the fundamental principle that taxes should not discriminate. Again, we feel it is unfair that this situation should exist and even more so that it should be allowed to continue in a changing market when the competition from non-taxed products becomes more and more intense.

This competition is increasing not only by reason of the appearance of many new and varied products but also from the various ways in which they are offered to the consumer. Such products stand side by side with carbonated beverages and offer the consumer immediate alternative choices. The competition is extremely intense; the burden of tax on carbonated beverages is completely unfair to the Industry. It is the aim of this Industry to place before the public

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HOME CONSUMPTION - OR THE RIGHT CONSUMPTION

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a quality product at competitive prices but the burden of the Sales Tax makes it increasingly difficult to compete effectively and turns consumers toward competitive products which enjoy a preferred position in the market.

REQUEST

The Ontario Carbonated Beverage Association on behalf of all members respectfully urges this Committee to recommend to our Government that equality of treatment is, and should be, a fundamental principle of all of our taxing laws and that obvious discrimination such as the 3% Provincial Sales Tax on Carbonated Beverages should be removed forthwith.

All of which is respectfully submitted.

THE ONTARIO CARBONATED BEVERAGE ASSOCIATION

Wm. Wilson,
President.

E X H I B I T "A"

B R I E F

RESPECTING SALES TAX

To

THE HONOURABLE JAMES N. ALLAN
TREASURER OF ONTARIO
PARLIAMENT BUILDINGS
QUEEN'S PARK
TORONTO 2, ONTARIO.

By

ONTARIO CARBONATED BEVERAGE ASSOCIATION

ONTARIO CARBONATED BEVERAGE INDUSTRY

159 Bay Street
Toronto 1, Ontario.

January 31, 1964

The Honourable James N. Allan,
Treasurer of Ontario,
Parliament Buildings,
Queen's Park,
Toronto 2, Ontario.

Dear Mr. Allan:

INTRODUCTION

Representing the whole membership of the Ontario Carbonated Beverage Association, we appreciate request that you exempt Soft Drinks from the 3% Provincial Sales Tax in your forthcoming Budget.

We wish to emphasize that we are not asking for a special exemption, but rather that the products of our Industry be placed in the same tax-exempt category as those of our direct competitors.

LOCAL NATURE OF THE SOFT DRINK INDUSTRY

The 162 bottling establishments in Ontario (32% of the all-Canada total) are with very few exception, owned and operated by local businessmen. They produce 33.3% of all Soft Drinks manufactured in Canada, employ 37.4% of total Canadian workers in the Industry and buy about 33% of all-Canada purchases of materials, sugar, bottles, crowns, cases, cartons, trucks and vehicles, etc.

The local bottler must provide and maintain his own plant and expensive machinery and equipment. He must supply the bottles and cases, the trucks and all the other items of production, distribution and sales, which together represent a very substantial local investment.

In many Ontario towns the local bottler is one of the few employers providing steady work throughout the whole year. There are many cases where the bottler ranks among the substantial employers of labour in his town and his purchases contribute greatly to the welfare of local suppliers, e.g. Barrie, Cornwall, North Bay, Exeter, Gravenhurst, Kenora, Owen Sound, Orangeville, Penetang, Peterborough, Sarnia, Stratford, Uxbridge, Niagara Falls, St. Catharines, etc.

In our view the Soft Drink Industry is the kind of locally owned business in our Province, which should be encouraged and fostered by the removal of discriminatory taxation rather than competitively confined and penalized by the continuation of the 3% Provincial Sales Tax on its products.

COMPETITIVE ITEMS FREE OF SALES TAX

The Retail Sales Tax Act of Ontario, as presently interpreted allows the purchase free of sales tax, of other directly competitive foods and beverages such as tea, coffee and substitutes, cocoa and its products, hot chocolate, ice-cream, sundaes, sherbets etc. and juices containing 25% or more by volume of natural fruit juices.

LEGISLATIVE REFERENCES - SOFT DRINKS FOOD PRODUCTS

Section 5 of the Ontario Retail Sales Tax Act states that:

"The purchaser of the following classes of tangible personal property is exempt from the tax imposed by this Act:

1. food products for human consumption off the premises where sold, except candies and other confections and soft drinks;"

Section 1, Subsection 26 of the Regulations (as amended on March 1, 1963) states the following with respect to food products:

"food products' does not include prepared meals, soft drinks, chewing gum, lozenges, candies, confections, dog, cat, bird and other animal foods, root beer and root beer extracts, malt and malt extracts;"

In examining Section 1, Subsection 47 of the Regulations which deals with prepared meals, it is stated in part that:

" 'prepared meals' includes soft drinks, sodas and other non-alcoholic beverages served as a composite part of a prepared meal . . . . "

CONSUMER INDEX - SOFT DRINKS ARE FOODS

There can be no doubt that Soft Drinks are now generally accepted as a refreshing food item. For example, in the Consumer Index, reported by the Dominion Bureau of Statistics on or about 7th December, 1963, Soft Drinks were listed with other staple home-purchase foods as important items in establishing the Canadian Consumer Index (see annexed photocopy).

In establishing the Canadian Index, the Dominion Bureau of Statistics includes the price of Soft Drinks, together with those of milk, cheese, bread, cereal products, pickles, oranges, grapefruits, apples, onions, carrots, meat, etc.

COMPETITIVE POSITION

Carbonated beverages must compete directly with a substantial number of products which are not subject to the 3% Provincial Sales Tax. The following list is merely an illustration of such products:

1. Coffee

   (a) gound coffee
   (b) instant coffee
   (c) iced coffee

2. Tea

   (a) teabags and bulk tea
   (b) instant tea
   (c) iced tea mixes

3. Cocoa, hot chocolate and chocolate flavoured drinks.

4. Ice Cream

5. Sherbets

6. Popsicles,fudgicles and similar products.

7. Fruit juices and various types as noted on page 2.

SALES TAX DISCRIMINATION - OTHER PRODUCTS

Certain other competitive products such as the many powders and tablets used for home-made Soft Drinks attract a substantially reduced tax because of the form in which they are sold. Such products are taken home and other products which are non-taxed are added to produce the final beverage. As a result, the tax applies only on a very small portion of the whole consumable product.

For Soft Drinks, the sales tax applies on sugar, on the employment-creating bottling processes, water, cost of delivery, distribution, etc. whereas powdered home-made drinks bear no such tax burden.

HOME CONSUMPTION - PART OF THE MEAL

Throughout Cities, Towns and Villages in our Province, Soft Drinks are consumed in homes as part of the meal and as a wholesome at-home refreshment; in business establishments, industrial plants, offices, retail stores, restaurants, eating establishments, places of amusement and leisure, etc. etc.

It is reliably estimated that in our Province, over 70% of all Soft Drinks purchased are for home consumption, whereas some 20-25 years ago only about 15% of all Soft Drinks sales were consumed by people in their homes. In the home the direct competition from non-taxed products is very keen.

INDUSTRIAL AND BUSINESS ESTABLISHMENTS

Workers in industrial establishments, factories and offices everywhere seek on-the-job refreshments during breaks and meal periods. The choice again in such establishments is between Soft Drinks and untaxed beverages such as coffee, tea, hot chocolate, juices, etc. Soft Drinks in our Province carry 3% Sales Tax penalty and must still compete, in fact here is where the Sales Tax has a heavy and most direct impact on the Industry.

By virtue of the Sales Tax, when tea and coffee take sales away from our business they also take away part of a job of a local worker and they help to destroy our business without replacing the source of jobs provided by the local bottler. Business such as tea, coffee, have partically no local employment impact by comparison with an industry such as ours.

CONCLUSION AND REQUEST

The 3% Ontario Sales Tax on Carbonated Beverages in our view is contrary to the fundamental principle that taxes should not discriminate. We respectfully submit that this discriminatory situation should not be allowed to continue. Ours is a rapidly changing market in which competition from non-taxed products becomes every day, more and more intense. This competition is increasing by reason of the appearance of many new and varied products developed under the competitive umbrella of the sales tax of Soft Drinks. Such products are offered side by side by die with carbonated beverages and offer the customer an alternative choice with a "no-sales-tax" advantage to the detriment of "sales-taxed" products of the Ontario Bottlers.

The burden of the Ontario Sales Tax on Soft Drinks is, we submit, unfair to this Industry. It is the aim of the Industry to place before the public a quality product at competitive prices and the Provincial Sales Tax makes it most difficult to do so. Customers turn toward untaxed competitive products which, as a result, enjoy an unwarranted and preferred position in the market.

7 We respectfully submit that it should be possible to buy Soft Drinks on a competitively equal basis: by the housewife for home consumption, in factories, offices, restaurants, eating establishments and the many thousands of retail outlets presently selling our products. Equality of treatment for the Industry's products with directly competitive food and beverage items will stimulate every segment of our Industry and provide equal treatment and opportunity in the market place.

And after all, when comparing the very considerable privilege given to tea, coffee, hot chocolate, etc., it might be useful to ask oneself why these privileges?

Coffee and tea we are informed, are entirely gathered dried and prepared outside of Canada and imported here in bulk. It is here only that they are packaged, a process of automation employing little labour with little or no employment-creating benefit at the local level. Coffee beans, when processed commercially are doubtless ground by machines in Canada, but not locally.

Deliveries of these products are through the ordinary channels of wholesale distribution. Tea and coffee pay no Sales Tax and offer little to the economy of the Province of Ontario or its cities, towns and municipalities by labour or taxation.

EQUAL TREATMENT FOR SOFT DRINKS

Now we would like to look at Soft Drinks in a similar light.

The whole process of manufacturing Soft Drinks in Ontario from the making of the bottles and of the crowns, the refining of the sugar which is done here in the Province from Ontario-grown sugar beets and imported raw sugar -- the

mixing with the sugar and the final preparation of these materials -- the washing of the bottles, and filling, carbonation, and capping -- the placing of each individual bottle into cartons and boxes -- the loading of trucks and the delivery at destination -- all of this is done manually, save in the main the washing and filling which is done under close manual supervision.

All of these processes are carried out exclusively within Ontario with local payrolls -- every single step to the benefit of local labour -- in St. Catharines, Barrie, Niagara Falls, Kenora, North Bay, etc.

Just one question amongst so many: how many motor vehicles are there in the streets delivering tea or coffee? For Soft Drinks, there are some 2,000 in the Province.

Does one realize the multitude of taxes arising out of this type of operation -- from income tax right down the line to gasoline tax and sales tax on the motor vehicles, machinery, etc. etc.? And it takes, of course, a very large number of trucks and motor vehicles leaving the bottling plant each day, to make a delivery of each beverage which is delivered in liquid form.

But one further thought comes to mind. If tea and coffee are foodstuffs -- crushed beans and dried tea leaves -- why would not Soft Drinks be in the same category?

REQUEST

On behalf of all members of the Ontario Carbonated Beverage Association, we respectfully urge your favourable consideration of our request that Soft Drinks be reclassified and that Section 5-1 of the Retail Sales Tax Act and appropriate Regulations be amended, to allow exemption from the 3% Sales Tax for Soft Drinks.

We trust that this can be accomplished forthwith and you may be assured that such action will be appreciated by each Soft Drinks Bottler in the Province of Ontario.

All of which is respectfully submitted.

ONTARIO CARBONATED BEVERAGE ASSOCIATION

Wm. Wilson, President.

January 31st, 1964.

DBS WEEKLY BULLETIN
DEC 13/63

4-12

PRICES

1. Consumer Price Index Canada's consumer price index (1949=100) rose 0.3% from 133.6 to 134.0 between October and November. The November index was 1.6% above the November 1962 index of 131.9. Six of the main component indexes showed almost equivalent increases. The remaining component, transportation, was unchanged.

Consumer Price Indexes (1949=100)

	Component Weights (1)	1963 November	1963 October	1963 September	1962 November
All-items	100	134.0	133.6	133.4	131.9
Food	27	130.8	130.4	131.3	127.7
Housing(2)	32	136.9	136.6	136.5	135.6
Clothing	11	118.7	118.3	116.1	116.0
Transportation	12	141.2	141.2	141.1	140.6
Health & personal care	7	164.8	163.8	162.7	159.8
Recreation & reading	5	151.0	150.5	149.1	148.2
Tobacco & alcohol	6	118.5	118.1	1.8.1	117.8

(1) Component weights indicate the relative importance of item groups.
(2) This index is composed of shelter and household operation.

The food index in November rose to 130.8, up 0.3% from the previous month's index of 130.4 as prices increased for a wide variety of items. Prices were sharply higher for sugar and fresh tomatoes. Sugar reached a current high of 20.5¢ per pound but was still below the record level of 22.9¢ set in August 1920. Foods showing moderate price increases included milk and cheese, bread and other cereal products, soft drinks, pickles, most fats, oranges and grapes, cabbage, celery and lettuce, most canned vegetables, liver and turkey. Generally lower prices were reported for ice cream, eggs, grapefruit, bananas and apples, onions, carrots, and most cuts of meat.

The housing index moved up 0.2% from 136.6 to 136.9 as both the shelter and household operation components increased. Within shelter, both rent and home-ownership were higher. The household operation index reflected price increases for coal, furniture, carpets, textiles, and utensils and equipment. Prices for some cleaning supplies were lower.

The clothing index increased 0.3% from 118.3 to 118.7 with higher prices for many items of men's, women's and children's wear and for footwear. Piece goods were lower, however.

The transportation index was unchanged at 141.2. Scattered price changes for gasoline were compensating and higher prices for motor oil were not sufficient to move the index.

The health and personal care index rose 0.6% from 163.8 to 164.8 as both component indexes were higher. In health care, increases occurred for prepaid medical care in Ontario and Manitoba. In personal care, prices were higher for some supplies and for men's haircuts and women's hairdressing.

The recreation and reading index moved from 150.5 to 151.0, an increase of 0.3%, with higher prices for motion picture admissions, camera film, bicycles and sports equipment.

The tobacco and alcohol index increased 0.3% from 118.1 to 118.5. Lower prices for cigarettes in several cities were not sufficient to offset higher prices for beer in Quebec.

... MORE

P R I C E S

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